Paper Is Not Money

BY PHILIP M. McKENNA

WHAT is money? "Congress shall have the power — to coin money and regulate the value thereof —" says the Constitution. By *regulate* was meant to establish the weight of the coin and the grains of precious metal in it.

The framers of the Constitution did not have any idea that they should presume to say how many bushels of potatoes, or bales of cotton, or pounds of iron, or yards of cloth should be exchanged for a dollar. Nor were they pursuing that will-o'-the-wisp of some of our modern economists who propose that the standard of value of our dollar be a list of commodities that would have the same value indefinitely.

They were to provide the people with coins in dollar denominations, of monetary metal. Nor did they intend, by coining money, to mean printing paper. They were providing a convenient unit of value by which free men might exchange goods and use money as a store of value.

In fact, they were so opposed to paper money experiments that the Constitution further forbids any state of the union to make anything other than gold or silver a legal tender for payment of debt. That's the law today. Only a devious course of legalistic rationalization has permitted denial of that plain intent.

What's wrong with paper currency and checkbooks? They are fine and dandy when we have an ultimate standard into which paper currency and checkbook dollars can be converted on demand.

But, wittingly or unwittingly, in 1933, the people were taken down the Communistic path, Lenin having been reported as saying that the best way to take over a country for Communism was first to debauch the currency. We proceeded to lay the groundwork for debauching the

currency of the American people just after we had elected Franklin D. Roosevelt on his campaign statement that "a sound currency is to be maintained at all hazards."

Roosevelt, in his campaign speeches in 1932, had given no inkling of his later course. In fact, he had referred to the magnificent speech of Carter Glass at that time, who had denounced the immorality of any government which would break its covenant with the people by issuing promises, in the sale of bonds which they did not intend to pay back in the same standard of value in which the borrowing was made. Foreign economists advocated the abandonment of specie payments to American citizens to further the interests of their own countries.

THERE was no valid reason for the action on March 6, 1933, taking us off the gold standard. There was more gold in the U.S. Treasury January 1, 1933, than there had been in September, 1929, when a very great amount of credit existed, in fact too much. It was described by the then Secretary of the Treasury Woodin as "a suspension of specie payments, for the time being, to meet an emergency." Since then, apparently we've had nothing but emergencies.

We continue, under the laws hastily enacted by a rubber-stamp Congress April 6, 1933, to deny to the American citizen the right to redeem currency in our standard of value, gold at $35 per ounce, while making good, any business day in the week, to foreign central banks, shipping gold from our Treasury at $35 per ounce in exchange for dollar credits they may present for redemption. During the week of November 15, 1954, foreign interests drew out $50 million in gold. During 1953, and down to June, 1954, $1,247,000,000 of gold was transferred to foreign interests from our Treasury. Foreigners own it now. That amount is about 5 per cent of our total stock of gold.

To remedy that discrimination against the U.S. citizen by his own Treasury in favor of foreign central bankers, the Senate this spring in its Committee on Banking and Currency heard the witnesses who testified regarding the Gold Redemption Act of 1954 and other bills which would take off the deadly hand of government from the people's money by requiring that currency be redeemed in gold coin on demand when wanted by any holder of it.

Testimony showed that there is in the U.S. Treasury sufficient coverage to meet any expected demand from U.S. citizens, provided the government's actions meet with general approval as to their fiscal soundness. Foreign interests can take out gold now, so that the Treasury would be exposed to no more hazard from them than it is today. Students of the facts about redemptions know that gold tends to flow to countries where there is no doubt about the currency being redeemable.

When already swimming, the danger of a shower making you wet is not worth considering. We now have in our Treasury about 10 per cent of gold reserves to all currency outstanding, plus all demand bank deposits (your checking accounts and everybody else's) in the U.S.A. That's more than was found necessary in 1926, for example, when it was 8.4 per cent and nobody thought it dangerous. It averaged 8.6 per cent from 1915 to 1932.

WHY, THEN, all this fuss about a redeemable currency? Because of the threat that an irredeemable currency implies to every holder of life insurance, savings accounts, bonds and pensions payable in dollars, and because government has the power to deteriorate still further the value of the dollar by issuance of bonds and notes which it doesn't promise to pay back in anything better than irredeemable currency.

Such mere threats cause people to do queer things, wasteful to the country as a whole. Testimony showed that since 1940 the dollar has lost on the average 5 per cent of its remaining value every year. As people become aware of that fact, they seek what they call hedges against inflation. Lacking a sound currency, people resort to barter instead of money. That is the beginning of the road which, once taken, leads to financial disorder by rapid deterioration of the dollar.

The burden falls on the trustful holder of dollar obligations; the thrifty citizen; the endowment fund of the college; the trust fund of the widow and the children; the savings of the rank and file citizens whether in bonds, savings account or pension fund. Slowly and unobtrusively the value of his savings is taken away by the sly process of monetary inflation.

He thus becomes an easy prey to the claims of any leader who says that he will correct all by rent fixing, by controls, and by a managed economy in which the government will take over his affairs. That's the essence of Communism.

One government official said that now is not the time for resumption of specie payments — the dollar would not stand the test. Another testified that, in his opinion, the dollar was very strong, that not until confidence in the dollar got a great deal worse would it be necessary to restore faith in it by making it redeemable to the U.S. citizen. Like the Arkansas settler who couldn't fix the leak in the roof now because it was raining, and when it wasn't raining the roof didn't need fixing, there is a tendency to procrastinate on the matter of the immediate restoration of the gold standard for the U.S. citizen. It can and should be done — without devaluation, and without delay.

Remember that Lenin, founder of Communism, told J. M. Keynes that the best way to soften a country for Communism was first to debauch the currency.